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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 004089

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E.O. 12958: DECL: 12/08/2011

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SUBJECT: TAIWAN PREMIER ON MAYORAL ELECTION CAMPAIGN

Classified By: AIT DIRECTOR STEPHEN YOUNG FOR REASONS 1.5 (b), (c)

¶1. (C) Summary. Two days before mayoral elections in Taipei and Kaohsiung, Premier Su Tseng-chang told AIT/T Director Young there is little hope for the Democratic Progressive Party in Taipei but the race is still tight in Kaohsiung. Su appears inclined to step down as premier if the DPP loses both races and said DPP Chair Yu Shyi-kun would resign in those circumstances. Su believes President Chen will remain in office absent significant new information in the corruption allegations. The Premier assured the Director Taiwan officials want quick passage of the defense budget, and opined that the opposition Kuomintang Party winning both races would not affect the political dynamics of the budget. Su took credit for a stable economy with low inflation. He said Taiwan should continue to liberalize trade but not make abrupt changes in its cross-Straits economic policies. He blamed Beijing for dragging its feet on cross-Straits economic initiatives and allowing politics to dictate all aspects of its policy towards Taiwan. End Summary.

¶2. (C) AIT Director Young met Premier Su Tseng-chang December 7 to discuss the upcoming December 9 mayoral elections in Taipei and Kaohsiung and the political implication for Su and the Democratic Progressive Party (DPP). Director Young was accompanied by Deputy Director Wang and AIT Econ Chief. Su had one translator and one note taker with him.

Kaohsiung Mayoral Race is Tight  
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¶3. (C) With the DPP candidates trailing in both Taipei, by a large margin, and in Kaohsiung, Su said a DPP victory in Taipei is not likely, but that it is still a race in Kaohsiung. Hence, he, President Chen and other DPP heavyweights are going all out to visit Kaohsiung and participate in voter rallies. He said DPP polls put their candidate trailing by about six percentage points in Kaohsiung and that this means the race is not yet decided. He said past DPP Chairman Lin Yi-hsiung is campaigning and

setting a positive example for DPP supporters. Su noted that though DPP members have criticized President Chen recently, the entire Party is rallying to support its candidates because the DPP remains the best Party operating in Taiwan. Rain is predicted in the north for Saturday's election, but Su said KMT supporters would not be fazed by bad weather while DPP supporters would stay home and drink tea if it is raining on Election Day. Thus, good weather would be important to Chen Chu's chances in the South.

#### Polling Accuracy Declining

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¶4. (C) Su said the polls for the Kaohsiung mayoral race four years ago were extremely accurate, but that more recent polls have delivered less accurate predictions of the eventual outcomes. He attributed the declining predictive power of the polls to the fact people are increasingly reluctant to respond to telephone polls. Currently less than half of the people called for political polls are willing to respond. However, Su's citing the six-point gap as evidence the Kaohsiung race is not yet over demonstrates the DPP's continued reliance on polling as an indicator of support and a campaign tool to gauge their tactics.

#### DPP Resignations?

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¶5. (C) Many commentators have told AIT/T Su will resign, along with DPP Chairman Yu Shyi-kun, should the DPP lose both Taipei and Kaohsiung. Asked about the impact of a potential double loss, Su said Yu will certainly resign because that practice is in the Party rules. Su did not respond directly about his own plans, but seemed to be rehearsing an argument

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for his stepping down. He noted that he had tendered his resignation in November with the indictment of President Chen's wife over the State Affairs fund case but was dissuaded by the President, who called upon Su to consider the political and economic stability of the government and Taiwan. Su said much has changed since then, with the economy more stable and the stock market at a 6-year high. On the political front, the President has weathered the immediate storm by surviving the latest (and third) recall motion. Su said Chen faces three political tests on the calendar: the December 9 mayoral elections, his wife's trial judgment and the LY elections next December. Chen has promised to step down if his wife is found guilty. Su said Chen would also face a recall vote if the DPP won less than a third of the seats in the LY election. Losing both mayoral races this week would not lead to his resignation.

¶6. (C) Casting the issue in a broader political context, Su said the most important political target on the horizon is the 2008 Presidential election. If the DPP can handle the impact of the December 9 elections then the DPP can be in a good position to retain the Presidency.

#### U.S. Support for Taiwan

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¶7. (C) The Director reiterated U.S. support for Taiwan's use of democratic institutions to address its issues, emphasizing reliance on constitutional processes and the rule of law. He also noted he had talked with both KMT Chair Ma Ying-jeou and LY Speaker Wang Jin-pyng urging them to pass a solid defense budget that would raise Taiwan's defense spending closer to three percent of GDP. He related that Wang indicated this was possible, while Ma suggested the issue is very complex. Su quickly responded that the Government position is very clear: pass the budget and pass it quickly. He added that a KMT victory in both mayoral elections would not affect consideration of the defense budget.

Time as Premier

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18. (C) As the conversation turned towards economic issues, Su said while there have been many political twists and turns during his tenure (not quite a year since January 2006) his goal has been to have a coordinated cabinet to respond to issues. He said he cannot have ministers saying contradictory things in public or one would have chaotic conditions. He claimed credit for a stable economy with low inflation and steady growth. (Note: GDP growth will be 4% this year and local think tanks and the Asian Development Bank predict the same for next year.) Su said Taiwan firms invest a lot in China, but that recently many of these same firms are also investing in Taiwan. He said Taiwan's Powerchip Semiconductor Corporation (PSC) had just yesterday told him it would join with a Japanese company to invest US\$15 billion in a 12-inch wafer fabrication plant. (Note: Internet-based media reported this news on December 7 and Taiwan's newspapers reported it on December 8, pegging the amount at US\$14 billion. The Japanese company is Elpida, a partner of PSC, which is a major producer of DRAM memory chips. This investment has been common knowledge in the industry and equipment suppliers have been jockeying for contracts. End Note.)

Cross-Strait  
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19. (C) The Director observed there has been substantial discussion in the press lately about cross-Strait economic policy, including debate on raising the investment and technology limits on Taiwan businesses in China, implementing direct flights and permitting Chinese tourists to visit Taiwan directly. Su responded by saying it is important not to have an abrupt change in cross-Strait policy that could

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shock the system. He added that Beijing has not been cooperative on these issues because it doesn't want to give President Chen any credit for improving China-Taiwan ties. Specifically, he said China has not cooperated to get Chinese tourists moving to Taiwan. He confirmed Taiwan is talking and working with Chinese officials on these issues and will continue to do so. His message is that progress can only be made step by step, suggesting that after successfully arranging charter flights for holiday periods the next step is to expand the charter flights to also accommodate tourist traffic.

110. (C) The Director noted the consensus view in the U.S. that Taiwan should relax restrictions across the Strait to ensure Taiwan's continued economic prosperity and involvement in regional and global trading patterns. He said Taiwan need not be overly concerned about expanding economic ties with China, so long as this is coupled with greater defense budgets. Su demurred somewhat by noting more than 70 percent of Taiwan's outbound investment goes to China. He believes such a high level may be "putting all your eggs in one basket" and that more investment should flow to South East Asia, Japan and India. He complained that even though Taiwan is the largest foreign investor in Vietnam, Taiwan representatives to APEC were slighted during the meetings in Hanoi. As evidence, he cited the official picture of the Leaders at the end of the meeting where Taiwan representative Morris Chang is completely obscured in the photo. (Note: It's true; of the several official photos on the APEC Website from the meeting, Chang is blocked from view in one shot, though he is in full view in the picture of the Leaders waving for the camera. End Note.)

111. (C) Confirming his reputation as a pragmatist on cross-Strait economic issues, Su said he doesn't believe these issues are all political in nature. However, he said China does view everything in political terms. He complained China purposely tried to wait until his airplane was in the air and headed to Chad before the announcement of Chad

shifting diplomatic recognition from Taiwan to China. He said this deliberate slight was to embarrass Taiwan and him. (Note: Taiwan provides police protection outside the houses of diplomatic representatives. This protection, including the guard booth, was removed from the Chadian representative's residence the same day Chad broke relations. End Note.) Su noted China applies political pressure to all countries regarding Taiwan, even extending to healthcare issues like preparations for and treatment of SARS, Avian Influenza and HIV/AIDs.

¶12. (C) Comment: Resignation following a double defeat for his Party in this weekend's election wouldn't be a bad career move for Su, who is widely viewed as the frontrunner to secure the DPP's presidential bid next spring. He would look principled, sharing responsibility with Party Chairman Yu for the defeat, and he -- like retiring Taipei Mayor Ma -- would be free to plot his election strategy. That said, we would expect President Chen to again try to persuade Su to stay on.

One compromise, which NSB Director Hsueh Shih-min sketched out to the Director December 8, would have Su hold off until January to step down. This could still provide the above benefits to Su, but would allow Chen a breathing space after the elections to pick the next Premier. Obviously, this scenario would be even easier if the DPP pulls out a victory in Kaohsiung. End Comment.

YOUNG